CH10 選擇題

10.

a. The purchase of a credit default swap. The investor believes the bond may increase in credit risk, which raises the prices of the credit default swaps because of the widened swap spread.

11.

c. When credit risk increases, the swap premium increases because of higher chances of default on the firm. When the interest rate risk increases, the price of the CDS decreases because the cash flows are discounted at a higher rate for bearing more risk.

CH11 選擇題

5.

d. None of the above, if the yield to maturity, y, is positive, then relationship between modified duration, D*, and Macaulay's duration, D, implies that D* will always be less than D: $D^* = \frac{D}{1+y}$

17.

a. Shorten his portfolio duration to decrease the sensitivity to the expected rate increase. Price change is positively related to duration and interest rates are inversely related to bond prices.

CH12 選擇題

6.

d. Asset play. Some of the valuable assets of the company are not currently reflected in the present value.

8.

c. Monetary policy will be restrictive and fiscal policy will be restrictive. This is consistent with a steeply upward-sloping yield curve because, while the expansionary policies stimulate the economy and decrease the short-term rate, high inflation in the future is expected which forces up the yield in longer maturity.

9.

a. A redistributive tax system is a demand-side management approach.

27.

a. Stock prices are one of the leading indicators. One possible explanation is that stock prices anticipate future interest rates, corporate earnings and dividends. Another possible explanation is that stock prices react to changes in the other leading economic indicators, such as changes in the money supply or the spread between long-term and short-term interest rates.

28.

a. Industrial production is a coincident indicator; the others are leading.

29.

a. Foreign exchange rates can significantly affect the competitiveness and profitability for a given industry. For industries that derive a significant proportion of sales via exports, an appreciating currency is usually bad news because it makes the industry less competitive overseas. Here, the appreciating French currency makes French imports more expensive in England (and also the U.S.).

31.

a. Product differentiation can be based on the product itself, the method of delivery, or the marketing approach.

CH14

6.

c. Inventory increases due to a new (internally developed) product line.

7.

c. Interest paid to bondholders. Even though this seems like it should fall under cash flow from financing, interest payments are legal obligations and are necessary for the continued operation of the firm (i.e. avoiding bankruptcy).

9.

a. Certain GAAP rules can be exploited by companies in order to achieve specific goals, while still remaining within the letter of the law. Aggressive assumptions, such as lengthening the depreciable life of an asset (which are utilized to boost earnings), result in a lower quality of earnings.

10.

a. Off balance-sheet financing through the use of operating leases is acceptable when used appropriately. However, companies can use them too aggressively

in order to reduce their perceived leverage. A comparison among industry peers and their practices may indicate improper use of accounting methods.

11.

a. A warning sign of accounting manipulation is abnormal inventory growth as compared to sales growth. By overstating inventory, the cost of goods sold is lower, leading to higher profitability.

12.

ROE = Net Profit Margin × Total Asset Turnover × Leverage Ratio

$$= \frac{\text{Net Profit}}{\text{Sales}} \times \frac{\text{Sales}}{\text{Average Assets}} \times \frac{\text{Average Assets}}{\text{Average Equity}} = .055 \times 2.0 \times 2.2 = .242 =$$

24.2%

14.

Asset Turnover Ratio = $\frac{Sales}{Assets} = \frac{\$2.40}{\$1.00} = 2.40$

ROE = Tax Burden × Interest Burden × Margin × Turnover × Leverage

= .75 × .6 × .1 × 2.4 × 1.25 = .135 = 13.5%

16.

a. Economic Value Added = (ROC – Cost of Capital) × Total Assets
   Acme: (.17 – .09) × ($100 + $50) = $12 million
   Apex: (.15 – .10) × ($450 + $150) = $30 million

   Apex has higher economic value added.

b. Economic value added per dollar of invested capital:
   Acme: (.17 – .09) × $1 = $ .08
   Apex: (.15 – .10) × $1 = $ .05

Acme has higher economic value added per dollar of invested capital.

CH15

3.

Each contract is for 100 shares: $7.25 × 100 = $725

8.

Option *c* is the only correct statement.

a. The value of the short position in the put is –\$4 if the stock price is \$76.

b. The value of the long position in the put is \$4 if the stock price is \$76.

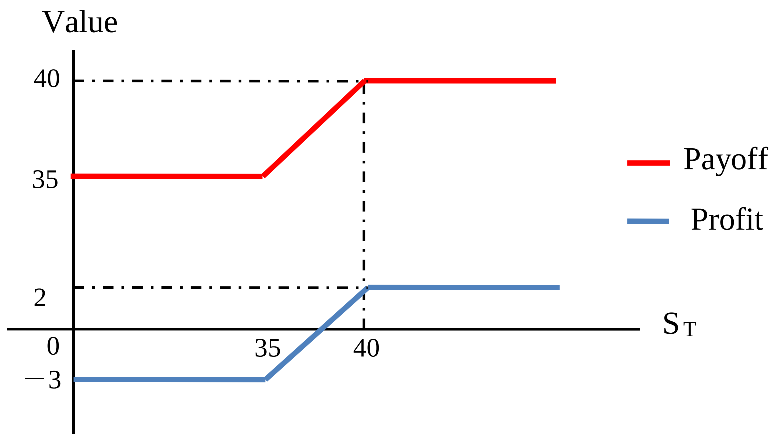
d. The value of the short position in the put is zero for stock prices equaling or exceeding \$80, the exercise price.

10.

The initial outlay of this position is \$38, the purchase price of the stock, and the payoff of such position will be between two boundaries, \$35 and \$40.

a. The maximum profit will thus be: \$40 – \$38 = \$2, and the maximum loss will be: \$35 – \$38 = –\$3.

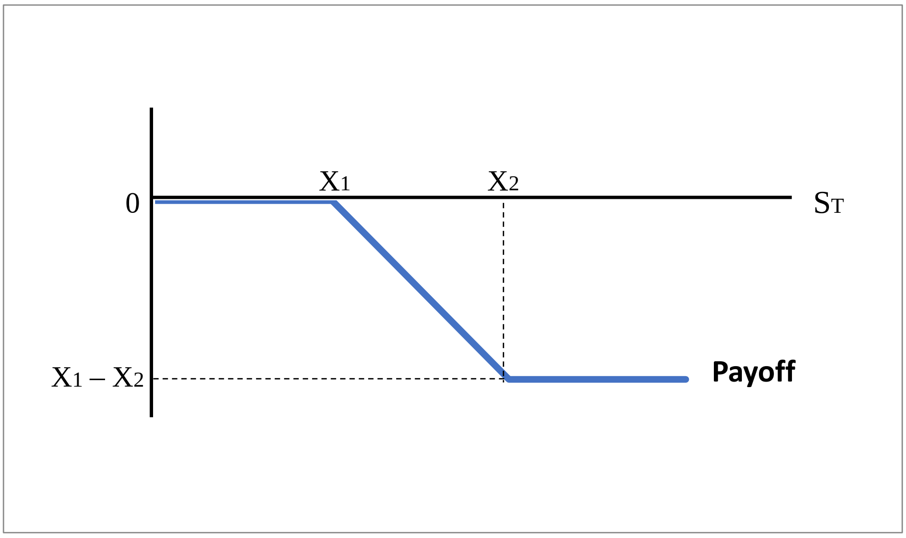
b.



17.

Bearish spread

Position	$S_T < X_1$	$X_1 < S_T < X_2$	$S_T > X_2$
Long call (X_2)	0	0	$S_T - X_2$
Short call (X_1)	0	$-(S_T - X_1)$	$-(S_T - X_1)$
Total	0	$X_1 - S_T$	$X_1 - X_2$



In the bullish spread, the payoff either increases or is unaffected by stock price increases. In the bearish spread, the payoff either increases or is unaffected by stock price *decreases*.